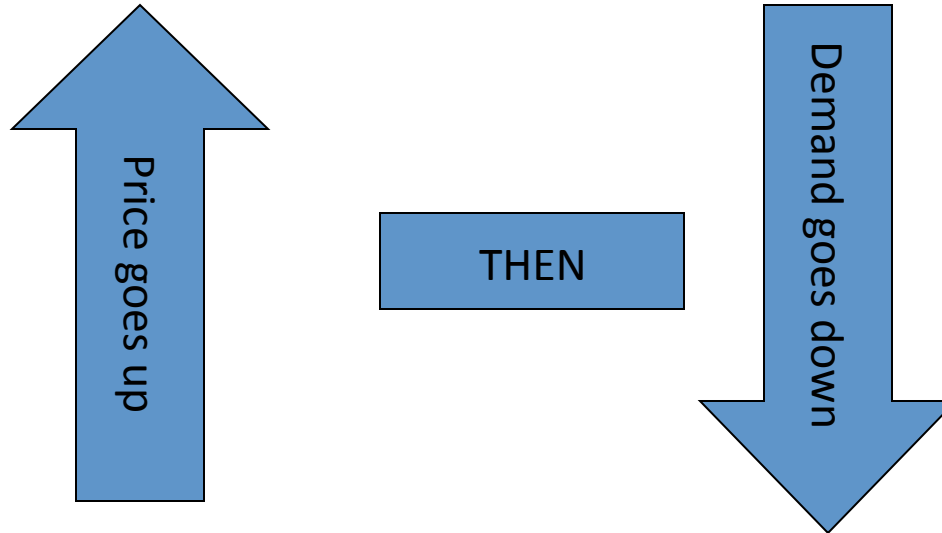
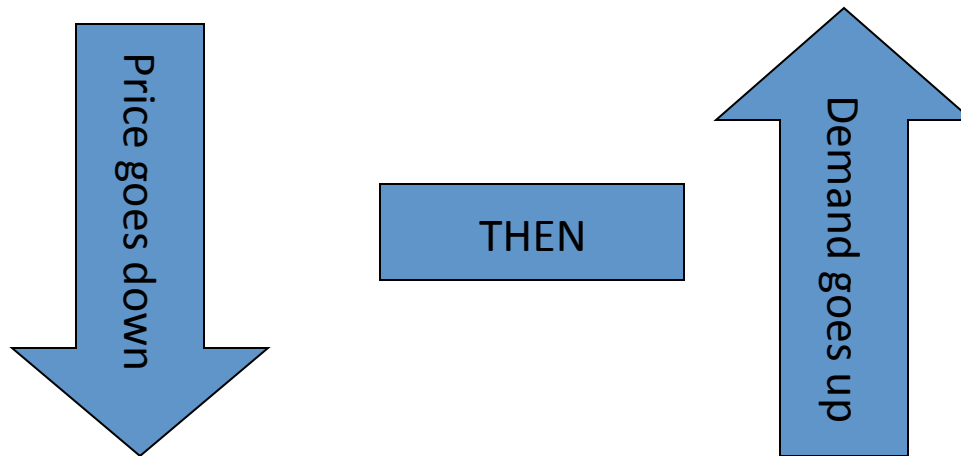


Law of Demand

Part 1. As **PRICE** increases, **DEMAND** decreases



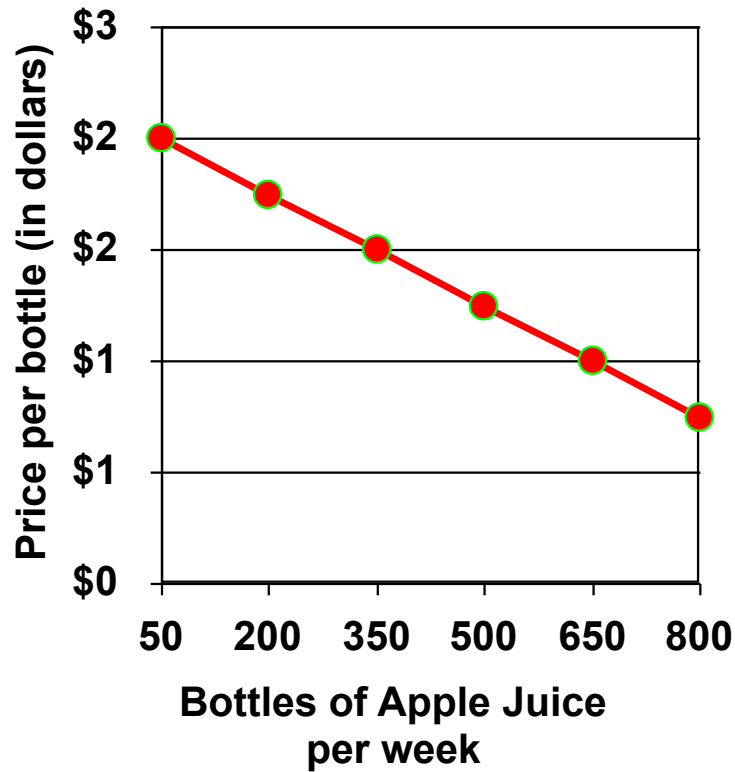
Part 2. As **PRICE** decreases, **DEMAND** increases



Demand Curve

- A graph that illustrates the demand for a product
- It shows how much consumer desire for a product changes as the price changes

Market Demand Curve: This curve illustrates the quantities of apple juice demanded at each price by all consumers in the market.



Price of a bottle of Apple Juice	Quantity demanded per week
\$0.75	800
\$1.00	650
\$1.25	500
\$1.50	350
\$1.75	200
\$2.00	50

Elasticity of Demand

- The degree to which changes in price cause changes in demand

or

- If we change the price, will demand change a lot or a little?

Example of Elastic Demand

- Price of pizza goes up even a little bit, demand goes down a lot.

Elastic Demand for Pizza

Curve is **FLAT**



Inelastic Demand

- Demand for a good that consumers will continue to buy despite a price increase is **INELASTIC**

OR

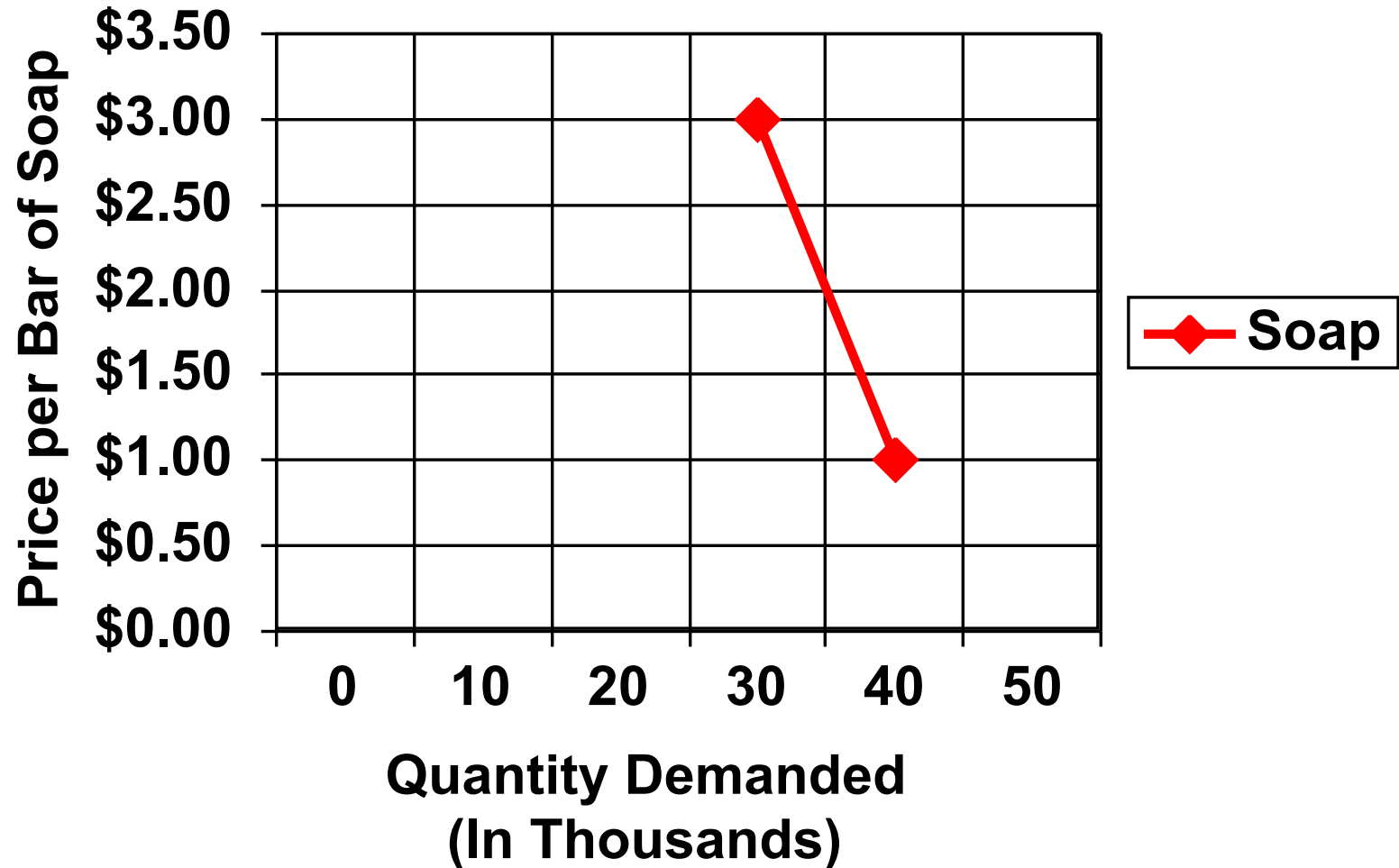
- Even if price changes a lot, demand changes very little

Example of Inelastic Demand

- The price of soap goes up a lot, the demand stays almost the same.

Inelastic Demand for Soap

Curve is **STEEP**



Factors Affecting Elasticity

- Several different factors can affect the elasticity of demand for a certain good.

1. Availability of Substitutes

If there are few substitutes for a good, the demand will not likely decrease as price increases (**inelastic**), the opposite (**lots of substitutes**) is also usually true (**elastic**)

Ex. Gasoline has no substitutes- **inelastic**

McDonalds has many (Burger King, etc)-
elastic

Factors Affecting Elasticity (Cont.)

2. Relative Importance

Another factor determining elasticity of demand is **how much of your budget you spend on the good.**

Ex. Mortgage payment must be paid (**inelastic**)

Entertainment (movies, etc.) are **elastic**

Factors Affecting Elasticity (Cont.)

3. Necessities vs. Luxuries

Whether a person considers a good to be a necessity or luxury has a great impact on the good's elasticity of demand for that person.

Ex. Food (inelastic)

Jewelry (elastic)

Factors Affecting Elasticity (Cont.)

4. Change over Time

Demand sometimes becomes **more elastic over time** because people can eventually find **substitutes**.

Ex. Blockbuster used to be the only place to rent videos (**inelastic**)

Netflix, On Demand, and Hulu, are substitutes for Blockbuster (**elastic**)

Exit Card

1. Define Demand
2. What shifts a demand curve
3. Create a demand curve
4. Shift the your demand curve based on some other company create a substitute good.
5. Illustrate an inelastic curve and an elastic curve label the goods each would be.
6. What factors affect elasticity?